THE ALGOMA STEEL CORPORATION, LIMITED

ANNUAL REPORT 1975

ALGOMA STEEL

Contents

Annual Meeting

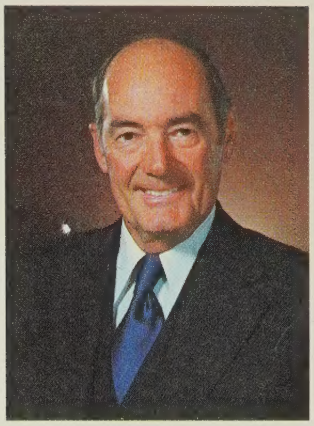
The Annual Meeting of Shareholders will be held at the Windsor Hotel, Sault Ste. Marie, Ontario, Thursday, April 15, 1976 at 2:15 p.m. Eastern Standard Time. A formal notice of the Meeting, an information circular and a proxy will be mailed separately.

Les personnes qui désirent recevoir ce rapport annuel en français peuvent se le procurer en écrivant au Secrétaire, The Algoma Steel Corporation, Limited, Sault-Sainte-Marie, Ontario.

Highlights of 1975

		1975	1974	Per Cent Change
		(dollars and tons in thousands except per share data)		
Net sales	$	**541,463**	474,102	+14
Earnings before equity in earnings of associated company and extraordinary items—total	$	**26,868**	44,344	—39
—per share	$	**2.30**	3.80	
Earnings before extraordinary items—total	$	**37,457**	53,756	—30
—per share	$	**3.21**	4.61	
Net earnings—total	$	**42,811**	53,756	—20
—per share	$	**3.67**	4.61	
—per cent of average total investment	%	**8.0**	11.0	
Cost of products sold as per cent of net sales	%	**85.1**	77.8	
Dividends paid—total	$	**16,338**	15,737	+ 4
—per share	$	**1.40**	1.35	
Additions to fixed assets excluding leased equipment	$	**104,523**	137,638	
Depreciation and amortization	$	**29,331**	26,078	
Long term debt at year end	$	**260,226**	167,353	
Production—iron	N.T.	**2,624**	2,774	— 5
—raw steel	N.T.	**2,748**	2,763	— 1
Shipments—steel products	N.T.	**1,968**	2,018	— 2
Approximate number of shareholders at year end	No.	**11,536**	12,220	

Canada's largest blast furnace came into operation in 1975.



D. S. HOLBROOK
Chairman and
Chief Executive Officer

JOHN MACNAMARA
President and
Chief Operating Officer

Letter to Shareholders

A year ago, the steel industry was cautiously optimistic that there would be an upturn in demand for steel products during the second half of 1975 and it was not envisaged that such a deep economic recession in North America would take place. Raw steel production in Canada and domestic sales were not as adversely affected as they were in the United States and most off-shore countries. The recession did not occur as soon in the Canadian economy and there was a substantial reduction in the tonnage of steel imported into Canada. Unfortunately, it now seems probable that in Canada recovery from this recession will be slow.

Algoma's production and shipments did not reach expected levels and earnings declined because of the recession and for other reasons given in this Report.

Expenditures on capital and mine development were again high and, with the start-up of new cokemaking, ironmaking and ingot reheating facilities, substantial progress was made on the program to increase production capacity. As a result of low cash flow and high capital expenditures, which increased loans to greater than expected levels, and uncertainty with respect to steel markets in 1976, work has been temporarily suspended on new facilities which are not essential to meet production and shipment projections for the next several years.

The Government of Canada, in quest for a solution to high escalation in prices, implemented anti-inflation legislation late in 1975 to control prices, profits, dividends and remuneration while at the same time encouraging improvement in productivity. The success of this program and its effect on Algoma remain to be seen.

The investment tax credit of 5 per cent on installed cost of new buildings and equipment, introduced in mid-year prior to the anti-inflation program, is a progressive step towards recognition that continuing business investment in modern production facilities is necessary if Canada is to compete effectively in world markets.

The tonnage of steel imported into Canada was only half the volume in 1974 however, off-shore steel is now being offered at prices considerably below Canadian prices.

The economic outlook for 1976 is uncertain and general predictions are for a slow start followed by

an upturn in the latter part of the year. Although Algoma's back-log of orders is lower than at the same time last year, the potential to increase production and shipments is considerably greater than a year ago. There are no major new production units to start up in 1976 and, with the exception of the Tube Division contract which expires on February 29, 1976, there are no labour contracts to be negotiated at manufacturing plants or captive mines.

During 1975 and early in 1976, several senior management changes were announced. John Macnamara was appointed a Director and promoted to President and Chief Operating Officer of The Algoma Steel Corporation, Limited and D. S. Holbrook continues to hold the offices of Chairman and Chief Executive Officer. R. N. Robertson was promoted to Vice President—Sales, S. H. Ellens was promoted Vice President—Administration and A. M. S. White was appointed Treasurer of the Corporation. A. S. Pack was appointed Executive Vice President of Cannelton Industries, Inc.

There were twelve meetings of the Board of Directors in 1975: four in Montreal, six in Toronto and two in Sault Ste. Marie.

The death of Thomas Alexander Crerar on April 11, 1975 is recorded with deep regret. Mr. Crerar, who had been a Director of the Corporation from 1945 to 1962 when he was appointed Honorary Director, served in the Federal Cabinet during two World Wars and in the Senate for over 20 years and made a valued contribution to Canada and to the Corporation.

The efforts of employees and the support of customers, suppliers and shareholders are acknowledged with appreciation.

D. S. Holbrook

D. S. HOLBROOK
Chairman and Chief Executive Officer

J Macnamara.

JOHN MACNAMARA
President and Chief Operating Officer

Sault Ste. Marie, Ontario
February 4, 1976.

Financial

Net earnings were $42.8 million equal to $3.67 per share and represented a return of 8 per cent on net sales, 8 per cent on average total investment and 12 per cent on average shareholders' equity. A substantial proportion of net earnings resulted from $10.5 million negative income taxes attributable to depletion allowances on mineral profits, a $3.5 million extraordinary gain from sale of the motor-vessel Yankcanuck and $12.4 million equity in earnings of Dominion Bridge Company, Limited.

Increases in production costs resulting principally from rapid escalation in prices of the various elements exceeded additional revenue from product price increases and profit margins declined. Escalation during the year was most pronounced in the costs of coal and coke—52 per cent, iron ore—25 per cent, steelmaking additions—35 per cent and employment—15 per cent. Market conditions precluded increasing product prices to the extent necessary to recover these cost increases.

Interest expense at $22.5 million on higher loans increased $11.7 million over 1974 and depreciation and amortization rose $3.3 million to $29.3 million reflecting the addition of new facilities.

Cash flow from operations was $49.6 million equal to $4.25 per share. This was less than half the expenditures on capital and mine development of $104.5 million. Additional funds were obtained from the sale of $65 million, 11 per cent, 20 year debentures, long-term loans for construction and development of the Maple Meadow coal mine in West Virginia, medium and short-term loans. In addition to expenditures for production facilities, new equipment costing $8.3 million was acquired under long-term leases which include purchase options. The motor-vessel Yankcanuck was sold for $5 million and leased back with an option to purchase.

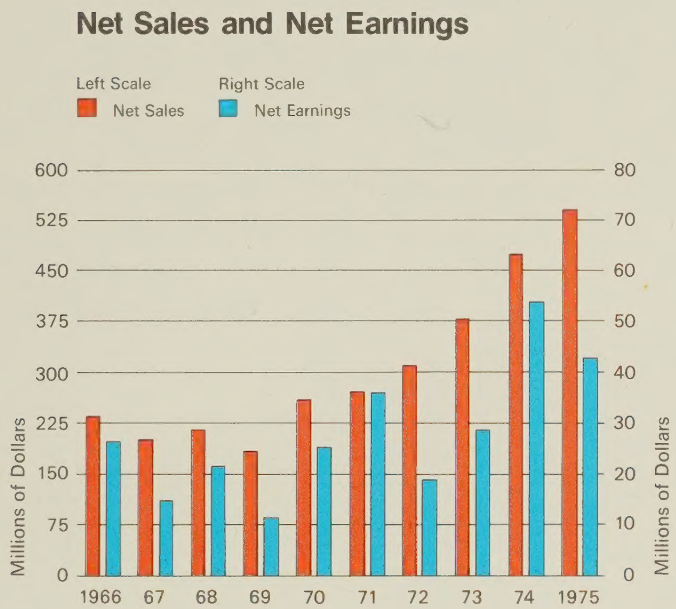
A payment of $4.8 million was received under an approved Federal regional economic expansion incentive grant with respect to construction of No. 7 blast furnace.

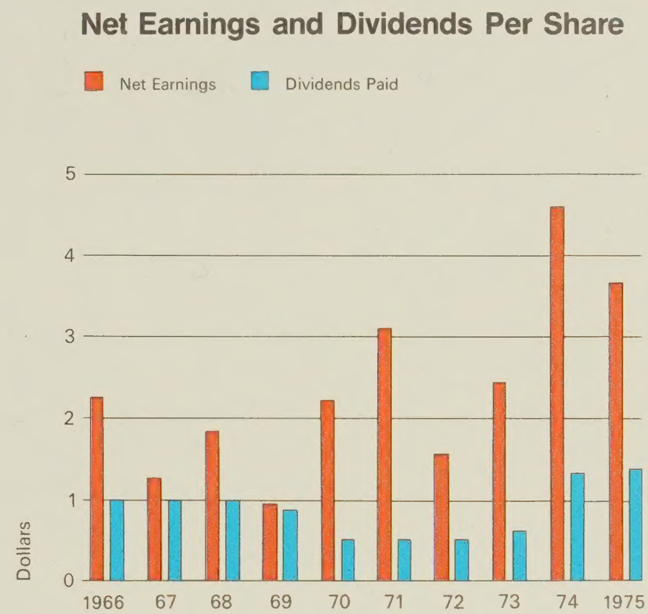
The quarterly dividend rate was continued at 35 cents per share and there was no extra dividend paid in December. Total dividends paid amounted to $16.3 million which represented $1.40 per share and 38 per cent of net earnings.

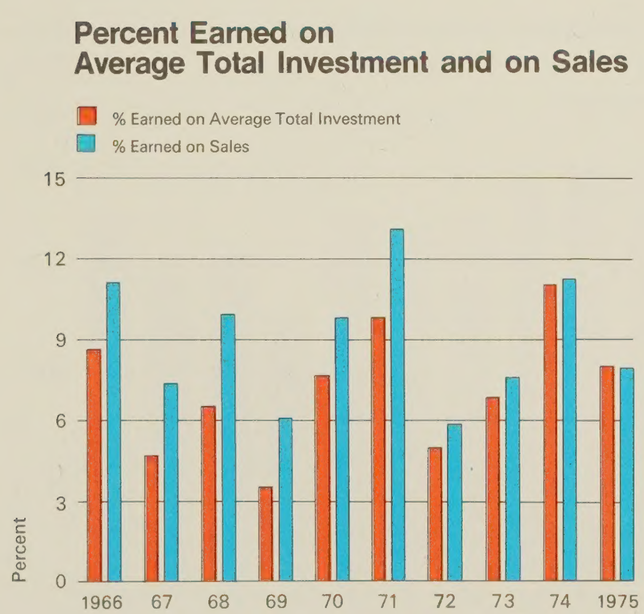
The ratio of current assets to current liabilities at December 31, 1975 was 1.6 to 1 and working capital was $78.3 million which was $21.4 million higher than at the end of 1974.

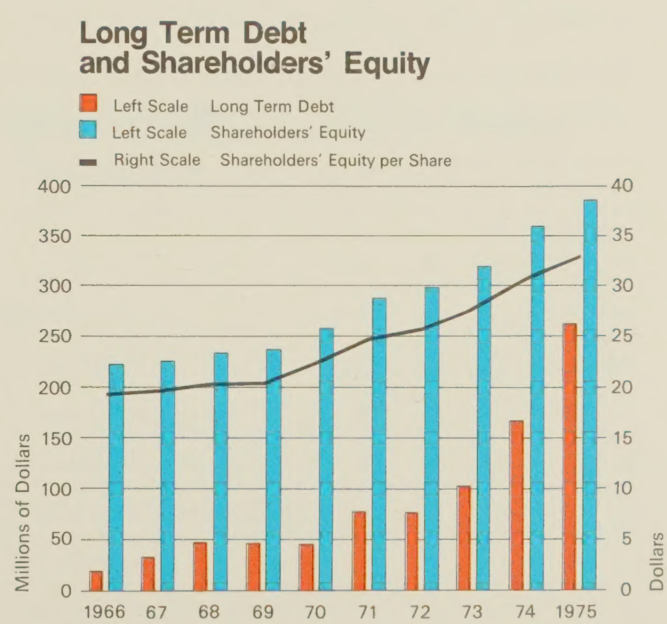
Long-term investments rose $14.6 million reflecting an increase of $8.5 million in Algoma's equity in undistributed earnings of Dominion Bridge Company, Limited and further investment of $5.3 million in the Tilden Mine joint venture.

Trends and data shown were influenced to a large extent in 1971 by a $21.5 million extraordinary addition to earnings.









Sales

There was a decline in rolled steel consumption in Canadian and world steel markets during 1975. Apparent Canadian consumption was about 17 per cent lower than in 1974 and this was reflected in a reduction in both Canadian mill shipments and imports. The latter decreased from the record 3.1 million tons in 1974 to approximately 1.4 million tons. Prices quoted in Canada for off-shore steel declined from a premium over Canadian prices early in the year to below Canadian prices at the year-end.

Production problems restricted the acceptance of orders during the first three quarters of the year and in the fourth quarter markets for some steel products softened significantly. Algoma's steel product shipments declined slightly from 2.02 million net tons in 1974 to 1.97 million net tons, although revenue increased as a result of more favourable product mix and higher selling prices.

Sales of pig iron by the Canadian Furnace Division were substantially lower. No shipments were made in the first four months due to depleted inventories when the blast furnace was being relined and demand declined during the last half of the year.

The outlook is uncertain for shipments of pig iron and some steel products in the early part of 1976. The appliance and agricultural implement industries are reasonably busy and the automotive industry is forecasting continuing improvement. Inventories are being reduced in service centres and they are anticipating improved business. World demand for seamless pipe and casing has weakened considerably but the North American market, particularly for high-strength oil country casing, is fairly strong. On the other hand, the construction industry is not forecasting an early increase in activity largely due to deferrals of energy-related and heavy industrial projects and there is no indicated strengthening in the railroad operating and transportation industries in the near future.

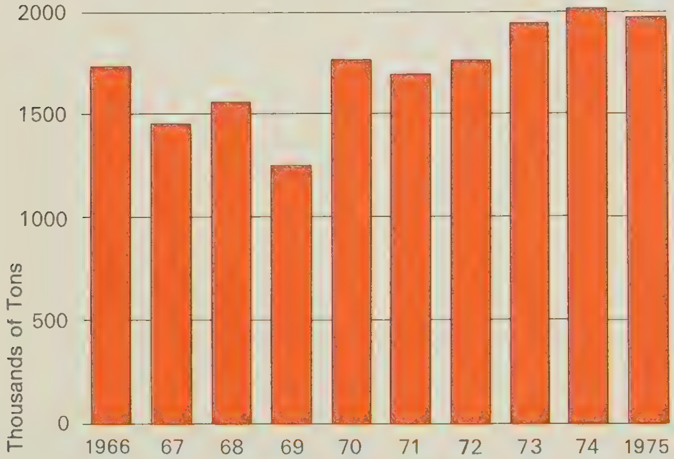
Algoma's steel shipments as a percentage of total Canadian mill shipments increased in 1975. Algoma now has the capability to supply greater tonnage of sheet and plate products and service to customers will show improvement in 1976.

Low-volatile metallurgical coal will be sold in 1976 from the new Maple Meadow Mine under a long term contract with another Canadian steel company.

Conversion to the metric system is continuing in step with the changeover required for Canadian industry.

Algoma's high-strength, low-alloy, weathering steel provides strength and corrosion resistance to bridge structures

Shipments of Steel Products



Steel Product Shipments by Product Classification, 1966 and 1972 to 1975

	1966 %	1972 %	1973 %	1974 %	**1975 %**
Plate and Sheet	44	56	57	55	**56**
Structurals	22	23	22	22	**20**
Rails and Fastenings	7	6	7	7	**8**
Bars and Grinding Media	5	5	5	6	**6**
Seamless Tubes and Skelp	13*	10	8	9	**10**
Semi-finished	9	—	1	1	**—**

*Represents shipments of tube rounds to a seamless tube producer.

Raw Materials

Critical 1974 shortages of raw materials were reversed in 1975 and availability of coal and iron ore exceeded requirements by mid-year. Almost all of the coal and over 90 per cent of the iron ore used at the Steelworks came from captive sources.

A three-month Algoma Central Railway strike reduced shipments of steel products and restricted sinter production at the Algoma Ore Division. A two-month strike at Steep Rock Iron Mines Limited caused a production loss of approximately 200,000 tons of iron ore pellets. Strikes at captive coal mines in the United States restricted production and delayed progress in achieving planned increased mining rates at new operations.

Cannelton Industries, Inc. produced 2.13 million tons of metallurgical coal and 300 thousand tons of steam coal for a total of 2.43 million tons representing a 22 per cent increase over 1974. The quality of metallurgical coal delivered to the Steelworks was improved by the introduction of coal from the Maple Meadow Mine and the addition of fine coal cleaning facilities at Pocahontas Mines. Underground development at the Maple Meadow Mine did not progress as rapidly as expected but mining conditions improved by year-end. Engineering is in progress on facilities to expand high volatile metallurgical coal production from properties subleased in West Virginia late in 1974 and several other optioned coal properties are being studied to determine whether they contain economic coal reserves. Paul Morton, President, Cannelton Industries, Inc., served as Chairman of the National Coal Association in the United States during 1975.

Production of sinter at the Algoma Ore Division totalled 1.69 million tons, a 17 per cent decrease from 1974. Progress continued on development work for deeper underground mining of the MacLeod Mine.

Tilden joint venture operations started well and improved steadily until mid-year. Unfortunately, thereafter, production was impaired by equipment failures and concentrate filtering problems. Modifications to equipment and operating practices should result in production reaching rated capacity during 1976. Work has been temporarily suspended on the second phase at Tilden until these problems have been resolved.

Exploration continued on iron ore and coal lands which are leased or under option. Exploration, acquisition, research and evaluation of coal and iron ore reserves are important factors in Algoma's policy to remain largely self-sufficient in these basic raw materials.

Extension of the Great Lakes navigation season in 1974 permitted shipping steel products and delivering raw materials to the Steelworks by vessel well into January, 1975. Full advantage is being taken of extended lake shipping seasons to reduce raw material inventories and realize economies from vessel movement of steel.

Surface mined coal lands in West Virginia are restored for future use.

Iron ore exploration in Northwestern Ontario is important in future raw material supply.

Operations

Steel production was restricted in the first half of the year by a shortage of hot metal due to a delayed start-up of No. 7 blast furnace and was again restricted toward the end of the year when steel demand declined. Total raw steel production of 2.75 million tons was slightly lower than in 1974.

The new No. 7 blast furnace which has a daily rated capacity of 5,000 tons was blown-in late in May and the smaller Nos. 3 and 4 blast furnaces were shut down. No. 4 furnace is being repaired and No. 3 furnace will be relined at a later date to produce hot metal as required. No. 7 furnace is equipped with many new features and is now producing at planned tonnage levels.

No. 7 coke oven battery was taken out of service for approximately five months early in the year for the replacement of the oven walls and auxiliary equipment. This further increased the corporation's need to supplement its own coke production by purchasing 82,000 tons of coke and obtaining an additional 121,000 tons through conversion of captive coal to coke by another steel company.

The new No. 9 coke oven battery began operation in November. This battery incorporates recent technological developments and equipment to minimize undersirable emissions into the air to the greatest extent possible. Cokemaking capacity of the present batteries will meet forecast requirements until early 1979 when a new No. 10 battery is scheduled to come into service.

The six new soaking pits began operating in mid-year and increased ingot reheating capacity 25 per cent. This additional capacity has improved blooming mill productivity and permits selected orders of plate and strip to be rolled directly from ingots without intermediate reheating.

Start-up problems have been greater than anticipated with the relocated 106 inch wide strip mill and production of hot and cold rolled strip was below expectations although production of plate and strip through the 166 and 106 inch mills was 7 per cent higher than the previously high level in 1973.

Increased demand for seamless tubes required higher levels of operations at the Tube Division and production increased 9 per cent over last year.

The blast furnace at the Canadian Furnace Division was relined during the early part of the year but because of very low demand for pig iron, the furnace was only operated for 3½ months.

The constantly increasing cost of purchased and by-product energy has emphasized the need for more efficient utilization of solid, gaseous and liquid fuels and electricity. Because of the high cost of coal, coke is the most expensive form of energy used at the Steelworks and gaseous and liquid fuels are being injected into the blast furnaces to minimize the usage of coke. In addition, internally generated by-product fuels are being substituted for purchased fuels wherever possible.

No. 9 coke oven battery incorporates recent technological changes in coke oven design.

Major projects underway or to be completed in 1976 include:

*New No. 10 coke oven battery of 60 ovens

New coke oven by-product plant and water quality improvement facilities

Relining of No. 5 blast furnace

Homogenized oil injection on Nos. 6 and 7 blast furnaces

Second charging crane for No. 2 basic oxygen steelmaking plant

*New continuous slab casting plant

*Ingot stripping crane

New ingot mould yard

New heavy plate processing and shipping facilities

New heavy structural straightener and changes to structural rolling and finishing equipment

Additional roll grinding equipment

Additional tube finishing capacity at the Chippewa Tube Division

*Work on these projects temporarily suspended.

Investigations are continuing into new facilities to reduce undesirable emissions into air and water. New settling and separation units were installed to intercept oil and iron oxide from entering the St. Mary's River. No. 7 blast furnace and No. 9 coke oven battery were equipped with proven air emission control facilities of the latest technology. Cooling water from No. 7 blast furnace is recirculated in a closed loop system to prevent discharge into the river. The new coke oven by-product plant equipment will prevent contaminants originating in the cokemaking process from entering the river.

Further progress was made in developing "Algoform" low-alloy high-strength hot and cold rolled sheets and Canadian and United States patents were granted to Algoma for the process technology. "Algoform" products were developed to supply existing markets and the projected major increase in demand for light weight steels by the automotive industry.

Work continued on the development of advanced steel chemistries for high-strength plate and associated welding requirements and Canadian and United States patents were granted to Algoma on the former technology.

Studies were undertaken to develop heavy-duty higher strength rails. Both chemistry and heat treatment are being studied to determine whether further service life improvement can be made for heavily loaded curved track locations.

Continued progress was made on new techniques for continuously casting blooms for high-strength seamless tubing and alloy rails with high wear resistant qualities.

Six new soaking pits increase ingot reheating capacity.

Employee Relations

Effective August 1, 1975, new three-year collective labour agreements were signed with local unions representing employees at the Steelworks, Algoma Ore and Canadian Furnace Divisions. These agreements are similar to other United Steelworker Union agreements negotiated in basic industries in Ontario with respect to increased employment cost and they provide for substantial wage and benefit increases including cost of living escalation. A memorandum of agreement was signed but not ratified by the union membership before the old contract expired and a five-day strike occurred at the Steelworks Division. Negotiations are underway with employees at the Tube Division on a new contract to replace one which expires February 29, 1976.

After extensive discussion with union committees representing employees at the Steelworks Division, a new Performance Bonus Plan was accepted by the membership which replaced various incentive plans for production workers. The Plan became effective January 1, 1975 and a similar plan was instituted for most staff and supervisory personnel. Under these plans, relative contributions of eligible employees to production and shipments are recognized and they receive additional earnings based on productivity improvements and increased shipments of rolled steel products.

Submissions under the Suggestion Plan increased to 1,605 from 1,008 in 1974 showing the interest of employees in improving efficiency and the ingenuity they apply to finding solutions to everyday problems. Many of the suggestions were adopted and have proven to be worth while.

The Corporation has established a comprehensive program of treatment and rehabilitation to assist employees who have a drinking problem. More than three quarters of those who participated in this program were able to continue to be gainfully employed as a result of the assistance they received.

About 2,900 employees at the Steelworks and Tube Divisions participated in a Safety Oriented First Aid Training Program developed by St. John Ambulance. The main purpose of this program is to develop awareness of the potential of accidents and to emphasize the avoidance of accidents and injuries both on and off the job. The initial phase of the program has been completed and records are being monitored to establish the long-term effect.

Special audio tests are being given to employees to measure hearing ability. All employees are encouraged to wear special protective devices to prevent loss of hearing. In addition, new facilities are being designed with a view to minimizing noise levels to the greatest extent possible.

The recruiting of graduates from Canadian universities and technological colleges is continuing. Summer employment of students has helped to acquaint future graduates with the Corporation and gives management an opportunity to assess their potential on the job. Financial assistance was provided to employees to further their education and the Corporation participated in a co-op program with a Canadian university.

Retired father and working son compare notes during an annual department open house.

Production committees work towards increased productivity and greater steel shipments.


DUTIES:
1. DISCUSS BONUS PLAN PERFORMANCE
2. GATHER AND IMPLEMENT SUGGESTIONS
3. GIVE FEEDBACK TO SUGGESTOR AND PASS INFORMATION TO SCREENING COMMITTEE
4. RECORD AND FILE SUGGESTIONS
5. DISCUSS MONTHLY AREA OBJECTIVES
6. SUBJECTS OF MUTUAL INTEREST

Earnings and Retained Earnings

For the Years Ended December 31, 1975 and 1974

		1975	1974
		(Thousands of Dollars)	
Income	Net sales	**$541,463**	$474,102
	Other	**385**	659
		541,848	474,761
Expenses	Cost of products sold	**460,741**	368,951
	Administrative and selling	**12,904**	11,048
	Interest and expense on long term debt	**19,150**	10,558
	Interest on short term loans	**3,395**	272
	Depreciation and amortization	**29,331**	26,078
		525,521	416,907
		16,327	57,854
Income Taxes (Note 2)	Current	**430**	—
	Deferred	**(10,971)**	13,510
		(10,541)	13,510
Earnings	Before equity in earnings of associated company and extraordinary items	**26,868**	44,344
	Equity in earnings of associated company	**10,589**	9,412
	Before extraordinary items	**37,457**	53,756
Extraordinary Items	Gain on sale of lake vessel (after deducting income taxes of $982)(Note 8c)	**3,510**	—
	Equity in gain of associated company on sale of property	**1,844**	—
Net earnings		**$ 42,811**	$ 53,756
Earnings per Share	Before equity in earnings of associated company and extraordinary items	**$ 2.30**	$ 3.80
	Before extraordinary items	**$ 3.21**	$ 4.61
	Net earnings	**$ 3.67**	$ 4.61
Retained Earnings	Balance at beginning of year as previously reported	**$344,414**	$306,395
	Adjustment of income taxes for prior years (Note 2)	**2,199**	2,199
	Balance at beginning of year as restated	**346,613**	308,594
	Net earnings	**42,811**	53,756
	Dividends paid	**(16,338)**	(15,737)
	Balance at end of year	**$373,086**	$346,613

Financial Position

As at December 31, 1975 and 1974

		1975	1974
		(Thousands of Dollars)	
Current Assets	Short term investments	$ —	$ 41
	Accounts receivable	84,286	64,234
	Regional incentive grant receivable	—	4,160
	Inventories (Note 3)	130,957	93,799
	Prepaid expenses	4,794	3,866
	Total current assets	220,037	166,100
Current Liabilities	Cheques outstanding less cash on deposit	13,852	14,831
	Bankers acceptances	30,000	—
	Promissory notes	11,311	5,268
	Accounts payable and accrued	76,874	82,965
	Taxes payable	6,588	4,767
	Long term debt due within one year	3,086	1,357
	Total current liabilities	141,711	109,188
Working Capital	Current assets less current liabilities	78,326	56,912
Long Term Assets	Regional incentive grant receivable (Note 4)	5,525	4,340
	Long term investments (Note 5)	82,625	68,065
	Net fixed assets (Note 6)	539,666	468,439
	Unamortized debenture expense	2,748	1,612
	Total long term assets	630,564	542,456
Total Investment	Working capital plus long term assets	708,890	599,368
Long Term Liabilities (Notes 7 and 8)	Long term debt (Note 9)	260,226	167,353
	Accrued past service pension cost (Note 10)	15,599	15,443
	Deferred income taxes	47,919	57,908
	Total long term liabilities	323,744	240,704
	Excess of total investment over long term liabilities	$385,146	$358,664
Shareholders' Equity (Note 11)	Capital stock		
	Shares of no par value		
	Authorized—30,186,704		
	Issued —11,670,228	$ 12,060	
	—11,669,628		$ 12,051
	Retained earnings	373,086	346,613
	Total shareholders' equity	$385,146	$358,664

On behalf of the Board:

D. S. HOLBROOK, Director W. E. McLAUGHLIN, Director

Changes in Financial Position

For the Years Ended December 31, 1975 and 1974

		1975	1974
		(Thousands of Dollars)	
Funds Were Provided By	Cash flow from operations		
	Earnings before equity in earnings of associated company	**$ 26,868**	$ 44,344
	Transactions not resulting in an outlay or receipt of funds	**18,841**	42,628
	Dividends received from associated company	**3,907**	2,471
		49,616	89,443
	Capital gain on sale of lake vessel (before income taxes of $982)	**4,492**	—
	Undepreciated cost of assets sold	**1,517**	—
	Regional incentive grant	**640**	4,160
	Net proceeds from long term loans	**95,152**	64,390
	Issue of capital stock	**9**	524
	Other—net	**430**	(131)
		151,856	158,386
Funds Were Applied To	Additions to fixed assets		
	Manufacturing plants	**84,086**	113,033
	Recoverable from regional incentive grants	**1,825**	6,000
		85,911	119,033
	Raw material properties	**18,612**	18,605
		104,523	137,638
	Long term investments	**6,035**	9,006
	Reduction in long term debt	**3,546**	2,200
	Dividends	**16,338**	15,737
		130,442	164,581
Working Capital	Increase (Decrease) during year	**21,414**	(6,195)
	Balance at beginning of year	**56,912**	63,107
	Balance at end of year	**$ 78,326**	$ 56,912

Changes in Working Capital

		1975	1974
Current Assets Increase (Decrease)	Short term investments	**$ (41)**	$ (559)
	Accounts receivable	**20,052**	12,860
	Regional incentive grant receivable	**(4,160)**	4,160
	Inventories	**37,158**	17,911
	Prepaid expenses	**928**	454
		53,937	34,826
Current Liabilities (Increase) Decrease	Cheques outstanding less cash on deposit	**(979)**	(5,460)
	Bankers acceptances	**30,000**	—
	Promissory notes	**6,043**	(5,268)
	Accounts payable and accrued	**(6,091)**	(28,777)
	Taxes payable	**1,821**	(838)
	Long term debt due within one year	**1,729**	(678)
		32,523	(41,021)
Working Capital	Increase (Decrease) during year	**$ 21,414**	$ (6,195)

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The statements consolidate the accounts of all subsidiary companies. The assets, liabilities and results of operations of United States subsidiaries are included assuming $1 Canadian equal to $1 United States; if these were converted to the actual Canadian dollar equivalent, there would be no material effect on these financial statements.

Inventories

Finished products and work in process are valued at the lower of cost or net realizable value. Raw materials and supplies are valued at the lower of cost or replacement cost.

Long Term Investments

The investment in the associated company, Dominion Bridge Company, Limited, is accounted for by the equity method.

The investment in a cost sharing joint venture producing iron ore pellets is valued at cost.

Fixed Assets

Property, plant and equipment are valued at cost. Expenditures for betterments and renewals which extend economic life and for mine development are capitalized. Maintenance and repairs are charged to expense as incurred. Depreciation of manufacturing plant and equipment is provided on a straight line basis at rates intended to write off these assets over their estimated economic lives. Mining equipment and mine development costs are amortized on a unit of production basis over the estimated recoverable iron ore and coal reserves.

Expenditures on periodic relines of blast furnaces are accrued for in advance on a unit of production basis.

Exploration and Raw Material Properties

Expenses incurred in the exploration for raw materials and the costs of investigating and holding raw material properties are charged to earnings as incurred.

Interest incurred on funds borrowed directly to finance the development of new raw material properties is capitalized during the period of construction and initial development. Such interest is included in the charge to earnings for depreciation and amortization when production commences in commercial quantities.

Research, Development and Production Start-up Expense

Costs of research, development and start-up of new production facilities are charged to earnings as incurred.

Incentive Grants

Assistance relating to the acquisition of plant and equipment is accrued on the basis of expenditures made and deducted from the cost of the related asset. Accordingly depreciation charged to earnings is based on the net cost of the asset.

Assistance relating to research, development and training activities is applied to reduce costs in the year incurred.

Income Taxes

The Corporation and its subsidiaries provide for income taxes on the tax allocation method. Since income tax regulations in Canada and the United States permit the deduction of expenses in calculating taxable income which may not correspond with amounts recorded for financial reporting, income taxes charged to earnings may differ from those currently payable. Income taxes charged to earnings, in excess of those currently payable, are shown as Deferred Income Taxes on the statement of Financial Position.
Investment tax credits are accounted for by the flow-through method.

2. INCOME TAXES

The $11.0 million deferred income tax credit in the earnings statement results principally from recording a greater amount of depreciation than the amount to be claimed for tax purposes. In the statement of financial position this tax credit is deducted from Deferred Income Taxes.

Income tax provision for 1975 was reduced by $16.7 million because depletion allowances are claimed in determining income for tax purposes.

Investment tax credits applied in reduction of 1975 income taxes amounted to $1.7 million. Unused investment tax credits available for reduction of income taxes in the years 1976 to 1982 amount to $7.0 million.

In 1975 revised federal income tax assessments were issued exempting income from the Ruth and Lucy iron ore mine from taxes during the three years commencing with the start of commercial production in

1968. Because of uncertainty with respect to the outcome of the application for tax exemption, income taxes were originally recorded by the Corporation as though such income was taxable. Income taxes were therefore overaccrued by $2.2 million in those years and the liability for deferred income taxes has now been reduced and retained earnings increased to reflect this adjustment.

3. INVENTORIES

	1975	1974
	(millions of dollars)	
Finished products	**$ 19.8**	$ 13.2
Work in process	**36.2**	28.1
Raw materials and supplies	**75.0**	52.5
	$131.0	$ 93.8

4. REGIONAL INCENTIVE GRANTS

The federal government has approved regional economic expansion incentive grants totalling $12 million to assist in the construction of certain facilities. Up to 80 per cent of each grant is payable when the facility is in commercial production and the balance is payable within the following 30 months.

Grants earned to December 31, 1975 amounted to $10.3 million of which $1.8 million was accrued in 1975. An amount of $4.8 million was received in 1975 on completion of one of these facilities.

5. LONG TERM INVESTMENTS

	1975	1974
	(millions of dollars)	
Associated company, at cost of capital stock and equity in undistributed earnings	**$ 61.5**	$ 53.0
Joint venture, at cost (Note 7)	**18.7**	13.4
Other, at cost	**2.4**	1.7
	$ 82.6	$ 68.1

6. FIXED ASSETS

	1975	1974
	(millions of dollars)	
Property, plant and equipment at cost:		
Manufacturing plants	**$748.1**	$668.9
Raw material properties	**131.4**	112.6
	879.5	781.5
Accumulated depreciation, depletion and amortization	**339.9**	313.1
	$539.6	$468.4

7. COMMITMENTS

(a) Long Term Investments include advances to Tilden Iron Ore Company (participant in a cost sharing joint venture to produce iron ore pellets) by a subsidiary of the Corporation. The subsidiary is entitled to receive its share of pellets, estimated at 1.2 million gross tons per annum, and is committed to pay its 47 per cent share of Tilden's costs, including amounts sufficient to repay its share of that company's long term debt amounting to $4.2 million in each of 1976 and 1977, $4.6 million in 1978 and $3.0 million in each of 1979 and 1980. The Corporation has entered into agreements under which it may be called upon to invest amounts in the subsidiary which would be available to meet such commitment of the subsidiary. At December 31, 1975, 47 per cent of Tilden's long term debt is $53.6 million.

The participants in the joint venture have entered into an agreement to expand production facilities by late 1979 subject to the fulfillment of certain conditions. To complete the expansion by the required time certain expenditures and commitments have been made and the subsidiary is committed at December 31, 1975 to provide $16.9 million for such expenditures and commitments under certain circumstances. An interim line of credit has been arranged by the participants to assist in financing these expenditures and commitments and at December 31, 1975 the subsidiary's share of loans under this line of credit amounted to $3.0 million, repayment of which has been guaranteed by the Corporation.

(b) Commitments of approximately $25 million are outstanding at December 31, 1975 for expenditures on property, plant and equipment.

8. LONG TERM LEASES

Rentals under long term leases amounted to $5.6 million in 1975 and future minimum annual rentals are approximately $5.7 million during the next five years. The rentals include:

(a) rental of a seamless tube plant under a lease which expires in 1986 and contains annual options to purchase from 1977;

(b) rentals of Steelworks machinery and equipment under leases which generally expire in 1993 and 1994 with options to purchase in 1990 and 1991;

(c) rental of a lake vessel, previously owned and sold in 1975 with an extraordinary gain of $3.5 million, under a lease commencing in 1975 and expiring in 1985 with an option to purchase in 1983;

(d) other rentals, principally under leases of raw material properties.

9. LONG TERM DEBT

	1975	1974
	(millions of dollars)	
Debentures (a)		
5¼% series A maturing 1978	**$ 11.6**	$ 12.2
7⅜% series C maturing 1987	**25.2**	26.4
8¾% series D maturing 1991	**34.0**	34.0
10⅜% series E maturing 1994	**50.0**	50.0
11 % series F maturing 1995	**65.0**	—
8½% notes maturing 1991 (b)	**22.0**	16.5
United States bank loan under revolving credit (b)	**4.3**	3.5
Canadian bank loan under revolving credit (c)	**35.0**	8.4
Short term promissory notes (c)	**15.0**	16.6
Other	**1.2**	1.2
Total amount outstanding	**263.3**	168.8
Less due within one year	**3.1**	1.4
	$260.2	$167.4

Sinking fund and other repayment requirements within the next five years are $3.4 million in 1976, $3.9 million in 1977, $13.4 million in 1978, $12.5 million in 1979 and $13.8 million in 1980.

(a) The debentures rank pari passu and are secured by a Trust Indenture containing a first floating charge on all assets of the Corporation in Ontario. At December 31, 1975, $.3 million of debentures are redeemed and are to be applied to meet 1976 sinking fund requirements.

(b) The remaining amount available under this line of credit for development of a coal mine is $1.2 million. This amount, when borrowed, and the outstanding $4.3 million bank loan are to be converted into a term loan maturing in 1980 bearing interest at rates varying with the lender's prevailing prime commercial rate. These borrowings are secured by a mortgage on the coal mine property.

(c) One of the bank lines of credit permits up to $50 million loans, bankers acceptances and short term promissory notes to be converted until December 31, 1977 into term loans maturing beyond 12 months but not exceeding seven years. Accordingly, $50 million of bank loans and short term promissory notes are classified as long term debt and the remaining $41.3 million of bankers acceptances and promissory notes are classified as current debt. The bank loans are secured by assignment of trade accounts receivable and inventories.

10. PENSIONS

Estimated unfunded liability for pensions earned by past service is $92.4 million which includes an increase of $34.3 million resulting from 1975 revisions in pension agreements and is comprised of the following:

	1975	1974
	(millions of dollars)	
Included in current liabilities . . .	**$ 7.1**	$ 5.4
Included in long term liabilities . .	**15.6**	15.4
Not included in liabilities	**69.7**	37.7
	$92.4	$58.5

Pension costs charged to earnings include those arising from current service, interest on the total unfunded past service liability and annual payments in respect of the $69.7 million not included in liabilities. It is planned that future payments will discharge the total unfunded past service liability by 1990.

11. SHAREHOLDERS' EQUITY

As long as series A debentures are outstanding, the Corporation must meet certain financial requirements before paying dividends or reducing share capital and these requirements are exceeded by a substantial amount.

There are unexercised options at December 31, 1975 on 20,900 shares terminating in 1979 at $15.19 per share.

12. REMUNERATION

Total remuneration of directors and senior officers amounted to $1.2 million.

13. ANTI-INFLATION LEGISLATION

The Corporation is subject to the federal Anti-Inflation Act and Regulations which became effective on October 14, 1975. As a result, the Corporation's ability to increase prices, profit margins, compensation and dividends subsequent to that date may be restricted during the period in which the Act and Regulations are in effect.

Auditors' Report to the Shareholders

We have examined the consolidated statement of financial position of The Algoma Steel Corporation, Limited and subsidiaries as at December 31, 1975 and the consolidated statements of earnings and retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors of the associated company and its subsidiaries whose earnings have been included on the equity basis in these financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation and subsidiaries as at December 31, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Sault Ste. Marie, Ontario
February 2, 1976.

"PEAT, MARWICK, MITCHELL & CO."
Chartered Accountants

Ten Year Summary of Operating and Financial Data

(tons in thousands and dollars in millions excepting per share data)

			1975	197
Operations	Production—Iron Ore (1)	G.T.	**3,478**	3,16
	—Coal (2)	N.T.	**2,425**	1,98
	—Coke	N.T.	**1,294**	1,37
	—Iron	N.T.	**2,624**	2,77
	—Raw Steel	N.T.	**2,748**	2,76
	Shipments—Steel Products	N.T.	**1,968**	2,01
Earnings and Related Statistics	Net Sales	$	**541.5**	474.
	Earnings Before Income Taxes	$	**16.3**	57.
	Income Taxes	$	**(10.6)**	13.
	Equity in Earnings of Associated Company	$	**12.4**	9.
	Net Earnings	$	**42.8** (3)	53.
	Dividends Paid	$	**16.3**	15.
	Earnings Retained in Business	$	**26.5**	38.
	Cash Flow From Operations	$	**49.6**	89.
	Per Share (5)—Net Earnings	$	**3.67**	4.6
	—Cash Flow From Operations	$	**4.25**	7.6
	—Dividends Paid	$	**1.40**	1.3
	Net Earnings as % of			
	—Net Sales	%	**7.9**	11.
	—Average Shareholders' Equity	%	**11.5**	15.
	—Average Total Investment (6)	%	**8.0**	11.
	Cost of Products Sold as % of Net Sales	%	**85.1**	77.
	Depreciation and Amortization	$	**29.3**	26.
Capital Expenditures	Manufacturing Facilities	$	**85.9**	119.
	Mining Properties	$	**18.6**	18.
	Total	$	**104.5**	137.
Long Term Debt	Borrowings—Debentures	$	**65.0**	50.
	—Other	$	**31.4**	15.
	—Total	$	**96.4**	65.
	Repayments	$	**3.5**	2.
	Interest and Expense	$	**19.2**	10.
Financial Position at Year End	Current Assets	$	**220.0**	166.
	Current Liabilities	$	**141.7**	109.
	Working Capital	$	**78.3**	56.
	Net Fixed Assets	$	**539.7**	468.
	Total Investment (7)	$	**708.9**	599.
	Total Assets	$	**850.6**	708.
	Long Term Debt	$	**260.2**	167.
	Shareholders' Equity	$	**385.2**	358.
	Number of Shares Issued (000) (5)	No.	**11,670**	11,67
	Shareholders' Equity Per Share (5)	$	**33.00**	30.7
	Number of Shareholders	No.	**11,536**	12,22

973	1972	1971	1970	1969	1968	1967	1966
,217	2,961	2,797	2,667	2,343	2,942	2,407	2,401
,413	2,490	2,202	2,701	2,301	2,253	1,841	1,685
,429	1,413	1,375	1,619	1,226	1,523	1,295	1,410
,619	2,288	2,136	2,440	1,705	2,189	1,957	2,241
,650	2,426	2,360	2,495	1,725	2,261	2,073	2,347
,946	1,753	1,700	1,760	1,256	1,563	1,461	1,731
76.2	310.0	271.8	257.4	183.1	216.2	200.6	235.5
30.8	12.2	11.8	15.9	(1.5)	17.3	18.6	39.3
7.5	(.3)	.1	(6.7)	(10.5)	(2.7)	4.5	15.5
5.3	5.9	2.7	3.0	2.2	1.6	1.7	2.5
28.6	18.4	35.9 (4)	25.6	11.2	21.6	14.8	26.3
7.3	5.8	5.8	5.8	10.2	11.6	11.6	11.6
21.3	12.6	30.1	19.8	1.0	10.0	3.2	14.7
57.8	32.7	51.8 (4)	36.6	19.4	35.7	35.5	47.7
2.45	1.59	3.10 (4)	2.20	.97	1.86	1.27	2.26
4.97	2.82	4.47 (4)	3.15	1.67	3.07	3.06	4.11
.625	.50	.50	.50	.875	1.00	1.00	1.00
7.6	5.9	13.2	9.9	6.1	10.0	7.4	11.2
9.2	6.3	13.3	10.4	4.8	9.4	6.6	12.2
6.9	5.0	9.9	7.6	3.6	6.6	4.7	8.7
80.8	84.8	84.7	83.4	87.7	80.9	79.4	74.5
23.5	20.6	18.9	18.3	17.5	18.6	17.6	16.5
51.5	45.4	35.0	27.3	37.8	20.8	34.8	29.8
16.0	6.6	4.1	3.7	2.6	2.4	4.2	3.7
67.5	52.0	39.1	31.0	40.4	23.2	39.0	33.5
		34.0			9.3	20.7	
30.7	1.2						
30.7	1.2	34.0			9.3	20.7	
3.4	2.2	2.2	1.0	.1	1.9		4.9
6.4	5.9	5.3	3.1	3.1	3.0	1.5	1.2
31.3	129.5	124.7	112.7	89.2	105.5	89.7	86.1
68.2	75.3	40.5	67.0	40.6	35.1	28.3	29.4
63.1	54.2	84.2	45.7	48.6	70.4	61.4	56.7
66.1	326.5	293.7	272.5	261.4	238.9	235.7	212.8
84.5	428.2	417.8	357.8	348.1	356.2	344.1	317.2
52.7	503.5	458.3	424.8	388.7	391.3	372.4	346.6
04.1	76.8	77.8	46.0	47.0	47.1	39.7	19.0
20.1	298.2	285.6	255.5	235.7	234.7	224.7	223.5
,635	11,595	11,595	11,608	11,608	11,608	11,608	11,606
7.51	25.72	24.63	22.01	20.31	20.22	19.36	19.25
,958	16,191	17,080	17,566	16,362	14,796	13,936	13,284

NOTES:

(1) Includes mines operated by the Corporation and its share of production from joint ventures.

(2) Metallurgical and steam coal.

(3) Includes extraordinary gain of \$3.5 million amounting to \$.30 per share.

(4) Includes an extraordinary gain of \$21.5 million amounting to \$1.85 per share.

(5) Statistics on shares adjusted for share subdivision in 1966.

(6) Net earnings are before deduction of interest on long term debt net of income taxes.

(7) Total assets less current liabilities.

Directors

*John B. Barber
Sault Ste. Marie, Ontario
Vice Chairman and Senior Vice President, The Algoma Steel Corporation, Limited

*John D. Barrington
Toronto, Ontario
Mining Consultant and company director

Keith Campbell
Montreal, Quebec
Vice President, Canadian Pacific Limited

*Ross Dunn, Q.C.
Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

*David S. Holbrook
Sault Ste. Marie, Ontario
Chairman and Chief Executive Officer, The Algoma Steel Corporation, Limited

Douglas Joyce †
Sault Ste. Marie, Ontario
Senior Vice President, The Algoma Steel Corporation, Limited

Dr. John Macnamara ††
Sault Ste. Marie, Ontario
President and Chief Operating Officer, The Algoma Steel Corporation, Limited

W. Earle McLaughlin
Montreal, Quebec
Chairman and President, The Royal Bank of Canada

MacKenzie McMurray
Montreal, Quebec
Chairman, Dominion Bridge Company, Limited

*M. C. G. Meighen, O.B.E.
Toronto, Ontario
Chairman, Canadian General Investments, Limited

Paul A. Nepveu
Montreal, Quebec
Vice President—Finance and Accounting, Canadian Pacific Limited

Charles I. Rathgeb
Toronto, Ontario
Chairman and Chief Executive Officer, Comstock International Ltd.

Leonard N. Savoie
Sault Ste. Marie, Ontario
President and Chief Executive Officer, Algoma Central Railway

*W. John Stenason
Montreal, Quebec
Executive Vice President, Canadian Pacific Investments Limited

*Dr. G. Wagner
New York, N.Y., U.S.A.
Representative of Mannesmann A.G.

Honorary Director

E. Gordon McMillan, Q.C.
Toronto, Ontario
Partner, McMillan, Binch, Barristers and Solicitors

* Member of Executive Committee
† to December 2, 1975
†† from December 3, 1975

Principal Officers

David S. Holbrook
Chairman and Chief Executive Officer

Dr. John Macnamara
President and Chief Operating Officer

John B. Barber
Vice Chairman and Senior Vice President

Douglas Joyce
Senior Vice President

C. Carson Weeks
Senior Vice President

Ross H. Cutmore
Vice President—Finance

Samuel H. Ellens
Vice President—Administration

Brian W. H. Marsden
Vice President—Operations

Peter M. Nixon
Vice President—Mines and Services

R. Gordon Paterson
Vice President—Engineering

Robert N. Robertson
Vice President—Sales

Joseph D. R. Potter
Secretary

William J. Reed
Comptroller

Adrian M. S. White
Treasurer

Executive Offices

Sault Ste. Marie, Ontario

Works and Operations

The Algoma Steel Corporation, Limited

- Steelworks Division, Sault Ste. Marie, Ontario
- Tube Division, Sault Ste. Marie, Ontario
- Canadian Furnace Division, Port Colborne, Ontario
- Algoma Ore Division, Wawa, Ontario
- Marine Division, Sault Ste. Marie, Ontario

Works and Operations of Subsidiary Company

Cannelton Industries, Inc., Cannelton, West Virginia

- Cannelton Coal Division
  - Kanawha Mines, Cannelton, West Virginia
  - Pocahontas Mines, Superior, West Virginia
- Indian Creek Division, Peytona, West Virginia
- Chippewa Tube Division, Dafter, Michigan
- Maple Meadow Mining Company
  - Maple Meadow Mine, Fairdale, West Virginia
- Cannelton Iron Ore Company

Incorporation

Under the laws of the Province of Ontario

Share Transfer Agents and Registrars

Montreal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Regina, Calgary and Vancouver

The Royal Bank of Canada Trust Company, New York

Shares Listed

Montreal, Toronto and Vancouver stock exchanges

Trustee for Debentures

Montreal Trust Company, Toronto, Ontario

Registrar for Debentures

Montreal Trust Company, Montreal, Toronto, Winnipeg and Vancouver

Sales Offices

Sault Ste. Marie, Ontario
Saint John, New Brunswick
Montreal, Quebec
Toronto, Ontario
Hamilton, Ontario
Windsor, Ontario
Winnipeg, Manitoba
Vancouver, British Columbia

Products

Algoma Sinter
Coke
Coal Tar Chemicals
Pig Iron
Ingots, Blooms, Billets and Slabs
Wide Flange Shapes
Welded Wide Flange Beams and Columns
H-Bearing Piles
Standard Angles, Channels and Beams
Elevator Tees
Zees and Special Car Building Sections
Bevelled Edge Grader Blade Bars
Heavy and Light Rails
Tie Plates and Splice Bars
Hot Rolled Bars
Reinforcing Bars
Forged Steel Grinding Balls
Grinding Rods
Hot Rolled Sheet and Strip
Cold Rolled Sheet and Strip
Plate
- Sheared and Gas Cut
- Universal Mill
- Floor

Seamless Pipe and Tubes
- Oil Well Casing
- Line Pipe
- Standard Pipe
- Mechanical Tubing
- Couplings

ALGOMA STEEL